HSBC Bank Middle East Limited - UAE Operations

Pillar 3 Disclosures at 31 March 2023

HSBC

Contents

Introduction

Legal status and principal activities

HSBC Bank Middle East Limited – United Arab Emirates ('UAE') Operations ('HSBC UAE') is a branch of HSBC Bank Middle East Limited ('HBME'). HBME has its place of incorporation and head office in the Dubai International Financial Centre ('DIFC'), in the United Arab Emirates, under a category 1 license issued by the Dubai Financial Services Authority ('DFSA').

The immediate parent company of HBME is HSBC Middle East Holdings BV and the ultimate parent company of the Bank is HSBC Holdings plc ('HSBC Group' or 'HSBC'), which is incorporated in United Kingdom.

The principal activity of the Bank is to offer a comprehensive range of financial services to personal, commercial, corporate, and institutional clients, which are carried out from its branches.

Pillar 3 disclosures

The Basel III framework is structured around three 'pillars', with the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process complemented by Pillar 3 market discipline. The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of application by banks of the Basel framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy.

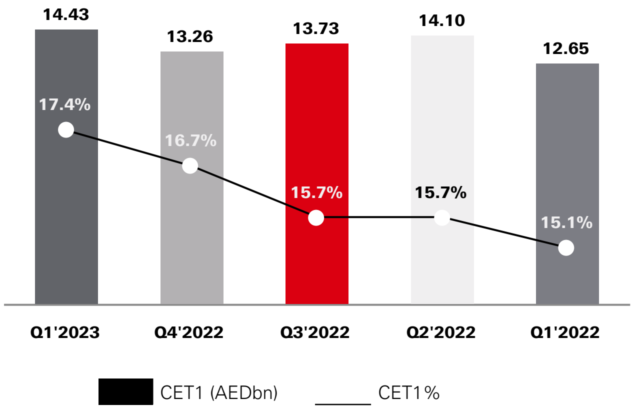
Our Pillar 3 Disclosures as at 31 March 2023 comprises of quantitative information required under Pillar 3. These disclosures are made in accordance with the disclosure templates introduced by the CBUAE guidelines on disclosure requirements (CBUAE/BSD/N/2020/4980 and CBUAE CBUAE/BSD/N/2021/5508) published in November 2020 and November 21 respectively.

Governance

HSBC UAE has operated within a framework of internal controls and procedures for assessing the appropriateness of these disclosure.

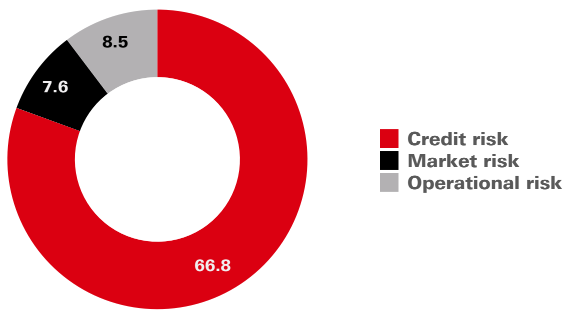
Highlights

Common equity tier 1



Risk-weighted assets by risk type

AED 82.9bn (4Q22:AED79.1bn)



At 31 March 2023, our CET1 capital ratio increased to 17.4% from 16.77% at 31 December 2022,resulting from increased profits in Q1 2023, which is partially offset by an increase in RWAs of AED3.8bn. The key drivers of this were due to an increase in Credit Risk amounting to AED 1.7bn and Market Risk by AED 2bn.

Overview of risk management, key prudential metrics and RWA (KM1)

		Q1'2023	Q4'2022	Q3'2022	Q2'2022	Q1'2022
		AED000	AED000	AED000	AED000	AED000
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	**14,426,831**	13,263,903	13,726,585	14,105,379	12,649,911
1a	Fully loaded ECL accounting model[1]	**14,426,831**	13,263,903	13,726,585	14,105,379	12,647,245
2	Tier 1	**14,426,831**	13,263,903	13,726,585	14,105,379	12,649,911
2a	Fully loaded ECL accounting model Tier 1[1]	**14,426,831**	13,263,903	13,726,585	14,105,379	12,647,245
3	Total capital	**15,262,154**	14,076,848	14,581,560	14,982,319	13,465,171
3a	Fully loaded ECL accounting model total capital[1]	**15,262,154**	14,076,848	14,581,560	14,982,319	13,462,505
	Risk-weighted assets (amounts)					
4	**Total risk-weighted assets (RWA)**	**82,924,188**	79,115,793	87,141,808	89,564,479	83,644,634
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	**17.40**	16.77	15.75	15.75	15.12
5a	Fully loaded ECL accounting model CET1 (%)[1]	**17.40**	16.77	15.75	15.75	15.12
6	Tier 1 ratio (%)	**17.40**	16.77	15.75	15.75	15.12
6a	Fully loaded ECL accounting model Tier 1 ratio (%)[1]	**17.40**	16.77	15.75	15.75	15.12
7	Total capital ratio (%)	**18.40**	17.79	16.73	16.73	16.10
7a	Fully loaded ECL accounting model total capital ratio (%)[1]	**18.40**	17.79	16.73	16.73	16.09
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	**2.50**	2.50	2.50	2.50	2.50
9	Countercyclical buffer requirement (%)	**—**	—	—	—	—
10	Bank D-SIB additional requirements (%)	**—**	—	—	—	—
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	**2.50**	2.50	2.50	2.50	2.50
12	CET1 available after meeting the bank's minimum capital requirements (%)	**6.90**	6.27	5.25	5.25	4.62
	Leverage Ratio					
13	Total leverage ratio measure	**166,374,168**	159,804,017	159,030,190	170,361,196	169,532,390
14	Leverage ratio (%) (row 2/row 13)	**8.67**	8.30	8.63	8.28	7.46
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	**8.67**	8.30	8.63	8.28	7.46
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	**8.67**	8.30	8.63	8.28	7.46
	ELAR					
21	Total HQLA[2]	**33,701,768**	25,293,917	21,876,749	28,651,363	37,602,005
22	Total liabilities	**121,201,088**	118,544,192	115,952,535	123,341,490	121,464,895
23	Eligible Liquid Assets Ratio (ELAR) (%)	**27.81**	21.34	18.87	23.23	30.96
	ASRR					
24	Total available stable funding	**100,897,171**	97,144,176	91,309,929	96,224,039	96,921,769
25	Total Advances	**66,516,144**	68,939,311	65,012,526	72,514,636	64,423,629
26	Advances to Stable Resources Ratio (%)	**65.92**	70.97	71.20	75.36	66.47

1 *No transitional arrangement has been applied for Q1 23.*
2 *Total HQLA balances have been restated for Q2 22 and Q3 22 to report full HQLA balance which now includes Local government, UAE public sector and foreign sovereign debt instruments and securities.*
3 *The fully loaded ECL accounting capital balances for Q1 22 have been restated to include CET 1, Tier 1 and Total Capital balances in addition to the ECL.*

Overview of risk management, key prudential metrics and RWA (OV1)

		RWA	Minimum capital requirements[1]	RWA	Minimum capital requirements[1]
		Q1'2023	**Q1'2023**	Q4'2022	Q4'2022
		AED000	**AED000**	AED000	AED000
1	Credit risk (excluding counterparty credit risk)	**60,402,377**	**6,342,250**	58,077,339	6,098,121
2	*of which: standardised approach (SA)*	***60,402,377***	***6,342,250***	*58,077,339*	*6,098,121*
3	*of which: foundation internal ratings-based (F-IRB) approach*	—	—	—	—
4	*of which: supervisory slotting approach*	—	—	—	—
5	*of which: advanced internal ratings-based (A-IRB) approach*	—	—	—	—
6	Counterparty credit risk (CCR)	**4,722,592**	**495,872**	5,202,387	546,251
7	*of which: standardised approach for counterparty credit risk*	***4,722,592***	***495,872***	*5,202,387*	*546,251*
8	*of which: Internal Model Method (IMM)*	—	—	—	—
9	*of which: other CCR*	—	—	—	—
10	Credit valuation adjustment (CVA)	**1,700,797**	**178,584**	1,755,763	184,355
11	Equity positions under the simple risk weight approach	—	—	—	—
12	Equity investments in funds - look-through approach	—	—	—	—
13	Equity investments in funds - mandate-based approach	—	—	—	—
14	Equity investments in funds - fall-back approach	—	—	—	—
15	Settlement risk	**75**	**8**	121	13
16	Securitisation exposures in the banking book	—	—	—	—
17	*of which: securitisation internal ratings-based approach (SEC-IRBA)*	—	—	—	—
18	*of which: securitisation external ratings-based approach (SEC-ERBA)*	—	—	—	—
19	*of which: securitisation standardised approach (SEC-SA)*	—	—	—	—
20	Market risk	**7,564,227**	**794,244**	5,546,066	582,337
21	*of which: standardised approach (SA)*	***7,564,227***	***794,244***	*5,546,066*	*582,337*
22	*of which: internal models approach (IMA)*	—	—	—	—
23	Operational risk	**8,534,119**	**896,082**	8,534,119	896,082
24	Amounts below thresholds for deduction (subject to 250% risk weight)	—	—	—	—
25	Floor adjustment	—	—	—	—
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**82,924,188**	**8,707,040**	79,115,793	8,307,158

1 *The regulatory minimum capital requirement is calculate at 10.5% of the RWA.*

Total Risk Weighted Assets increased by AED 3.8bn mainly due to the increase in credit risk by AED 1.7bn and Maret Risk by AED 2bn.

- The main increase in credit risk was due to the increase in Corporate exposures by AED 1.6bn and PSEs treated as claims on corporates by AED 212m.
- Market Risk increased by AED 1.7bn due to higher Foreign Exchange RWAs, mainly driven by higher short positions in SAR, KWD and OMR currency compared to Q4' 2022.

Summary comparison of accounting assets vs leverage ratio exposure (LR1)

		31 Mar 2023 AED000	31 Dec 2022 AED000
1	Total consolidated assets as per published financial statements[1,2]	**139,444,494**	135,335,128
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	—	—
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	—	—
4	Adjustments for temporary exemption of central bank reserves (if applicable)	—	—
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	—	—
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	—	—
7	Adjustments for eligible cash pooling transactions	—	—
8	Adjustments for derivative financial instruments	**1,048,930**	497,193
9	Adjustment for securities financing transactions (ie repos and similar secured lending)	**1,278,932**	986,651
10	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	**25,671,843**	24,295,902
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	**(400,945)**	(370,654)
12	Other adjustments	**(669,086)**	(940,202)
13	**Leverage ratio exposure measure**	**166,374,168**	159,804,017

1 HSBC UAE does not publish interim financial statements.
2 Total consolidated assets does not include provision and interest in suspense.

Leverage ratio common disclosure template (LR2)

		31 Mar 2023 AED000	31 Dec 2022 AED000
	On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	**107,677,774**	99,572,744
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	—	—
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	—	—
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	—	—
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	—	—
6	(Asset amounts deducted in determining Tier 1 capital)	**(400,945)**	(370,654)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**107,276,829**	99,202,090
	Derivative exposures		
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	**1,551,453**	2,033,367
9	Add-on amounts for PFE associated with all derivatives transactions	**5,304,036**	5,363,677
10	(Exempted CCP leg of client-cleared trade exposures)	—	—
11	Adjusted effective notional amount of written credit derivatives	—	—
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	—	—
13	**Total derivative exposures (sum of rows 8 to 12)**	**6,855,489**	7,397,045
	Securities financing transactions		
14	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**25,291,074**	27,922,330
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	—	—
16	CCR exposure for SFT assets	**1,278,932**	986,651
17	Agent transaction exposures	—	—
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	**26,570,006**	28,908,981
	Other off-balance sheet exposures		
19	Off-balance sheet exposure at gross notional amount	**86,044,517**	79,323,318
20	(Adjustments for conversion to credit equivalent amounts)	**(60,372,674)**	(55,027,416)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	—	—
22	**Off-balance sheet items (sum of rows 19 to 20)**	**25,671,843**	24,295,902
	Capital and total exposures		
23	**Tier 1 capital**	**14,426,831**	13,263,903
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**166,374,167**	159,804,017
	Leverage ratio		
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) (%)**	**8.67**	8.30
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	**8.67**	8.30
26	CBUAE minimum leverage ratio requirement (%)	**3**	3
27	Applicable leverage buffers	—	—

Eligible Liquid Assets Ratio (ELAR)

		31 Mar 2023		31 Dec 2022	
		Nominal amount	**Eligible Liquid Asset**	Nominal amount	Eligible Liquid Asset
		AED000	**AED000**	AED000	AED000
1	High Quality Liquid Assets				
1.1	Physical cash in hand at the bank + balances with the CB UAE	**15,752,647**		14,185,600	
1.2	UAE Federal Government Bonds and Sukuks	**12,734,182**		7,214,754	—
	Sub Total (1.1 to 1.2)	**28,486,829**	**28,486,829**	21,400,354	21,400,354
1.3	UAE local governments publicly traded debt securities	**160,318**	**—**	88,545	—
1.4	UAE Public sector publicly traded debt securities	**—**	**—**	11,472	—
	Sub total (1.3 to 1.4)	**160,318**	**160,318**	100,017	100,017
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	**5,054,621**	**5,054,621**	3,793,546	3,793,546
1.6	**Total**	**33,701,768**	**33,701,768**	25,293,917	25,293,917
2	Total liabilities		**121,201,088**		118,544,192
3	Eligible Liquid Assets Ratio (ELAR) (%)		**27.80**		21.30

Advances to Stables Resource Ratio (ASRR)

		Mar-23	Dec-22
	Items	**AED000**	AED000
1	**Computation of Advances**		
1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	**51,203,422**	56,786,517
1.2	Lending to non-banking financial institutions	**4,500,120**	4,273,143
1.3	Net Financial Guarantees & Stand-by LC (issued - received)	**293,732**	(2,059)
1.4	Interbank Placements	**10,518,870**	7,881,710
1.5	**Total Advances**	**66,516,144**	68,939,311
2	**Calculation of Net Stable Resources**		
2.1	Total capital + general provisions	**17,863,525**	16,994,582
	Deduct:		
2.1.1	Goodwill and other intangible assets	**661,861**	630,608
2.1.2	Fixed Assets	**884,990**	888,190
2.1.3	Funds allocated to branches abroad	**—**	—
2.1.5	Unquoted Investments	**—**	—
2.1.6	Investment in subsidiaries, associates and affiliates	**—**	—
2.1.7	**Total deduction**	**1,546,851**	1,518,798
2.2	**Net Free Capital Funds**	**16,316,674**	15,475,784
2.3	**Other stable resources:**		
2.3.1	Funds from the head office	**—**	—
2.3.2	Interbank deposits with remaining life of more than 6 months	**5,272,123**	5,187,164
2.3.3	Refinancing of Housing Loans	**—**	—
2.3.4	Borrowing from non-Banking Financial Institutions	**3,281,319**	3,541,607
2.3.5	Customer Deposits	**74,835,032**	71,355,375
2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	**1,192,023**	1,584,246
2.3.7	**Total other stable resources**	**84,580,497**	81,668,392
2.4	**Total Stable Resources (2.2+2.3.7)**	**100,897,171**	97,144,176
3	**Advances to Stable Resources Ratio (1.5/ 2.4*100) (%)**	**65.92**	70.97

HSBC Bank Middle East Limited

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HSBC Bank Middle East Limited

Incorporated in the Dubai International Financial Centre.
Regulated by the Central bank of the U.A.E and
lead regulated by the Dubai Financial Services Authority